

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 CTME-00 AID-05 CIAE-00 COME-00
EB-08 FRB-01 INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04
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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 2106

INFO AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMCONSUL HONG KONG

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HONG KONG FOR REGFINATT

E.O. 11652: N/A

TAGS: ECON, ETRD, KS

SUBJ: KOREAN EXPORT PERFORMANCE ON TRACK

1. HALFWAY THROUGH THE YEAR, KOREA'S EXPORT PROGRAM IS MOVING ALONG ON SCHEDULE. ACCORDING TO PRELIMINARY CUSTOMS DATA, EXPORTS FOR THE FIRST SIX MONTHS OF 1978 TOTALLED \$5,704 MILLION -- A NOMINAL INCREASE OF 26 PERCENT OVER THE SAME PERIOD LAST YEAR. THIS IS SOME \$204 MILLION OVER THE MID-YEAR TARGET OF \$5,500 MILLION, AND 46 PERCENT OF THE \$12,500 MILLION TARGET FOR 1978 AS A WHOLE.

2. DESPITE THE RESPECTABLE PERFORMANCE TO DATE, THERE SEEMS TO BE AN AIR OF APPREHENSION - PARTICULARLY IN TRADE CIRCLES - ABOUT PROSPECTS FOR THE SECOND HALF OF THE YEAR. IN ADDITION TO THE OFT-CITED SPECTRE OF MOUNTING OVERSEAS TRADE PROTECTIONISM, A NUMBER OF PURELY LOCAL FACTORS HAVE RECENTLY CROPPED UP. FIRST, EXPORTS OF CEMENT, STEEL REINFORCING BARS, AND PLAYWOOD HAVE BEEN SEVERELY
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CURTAILED BY THE GOVERNMENT IN RESPONSE TO DOMESTIC SHORTAGES OCCASIONED BY THE CONSTRUCTION BOOM. THIS HAS HAD SOME DEGREE OF NEGATIVE IMPACT ON EXPORT PERFORMANCE. SECOND, THE GENERAL TRADING COMPANIES HAVE REGISTERED SHARP COMPLAINTS OVER THE CURRENT SHRTAGE OF OPERATING CAPITAL BROUGHT ABOUT BY GOVERNMENT RESTRICTIONS ON RED-CLAUSE LETTERS OF CREDIT (ADVANCE

PAYMENTS FOR EXPORTS), AND THE HIGHER COST OF WORKING CAPITAL AS A RESULT OF RECENT INTEREST RATE HIKES. THESE FACTORS, THEY CLAIM, COMBINED WITH RAPIDLY RISING WAGE COSTS, HAVE CUT SEVERELY INTO PROFIT MARGINS AND HAVE AN ADVERSE EFFECT ON THEIR ABILITY TO MEET EXPORT DEMAND ON A COMPETITIVE BASIS. ONE TRADE SOURCE CLAIMS THAT AVERAGE MONTHLY WAGE RATES FOR MANUFACTURING IN KOREA WILL SURPASS THOSE IN TAIWAN DURING THIS YEAR.

3. COMMENT: WHILE THESE ARE LEGITIMATE PROBLEMS, WE ARE INCLINED TO VIEW THE CURRENT SPATE OF GLOOMY PROGNOSTICATIONS AS SOMEWHAT OVERDONE. THE UNDERLYING PERFORMANCE OF KEY EXPORT INDUSTRIES SUCH AS TEXTILES AND ELECTRONICS APPEARS STILL SOLID, AND SHOULD REMAIN SO THROUGH THE END OF THIS YEAR. WHILE EXPORTS DURING THE THIRD QUARTER ARE TRADITIONALLY SOMEWHAT DULL, WE HAVE NO REASON TO DOUBT THAT THE KOREANS WILL FIND SOME WAY TO CLOSE OUT THE YEAR IN A BLAZE OF ENERGY, AS USUAL, AND ACHIEVE THE \$12.5 BILLION TARGET.

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